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FM AIT TAIPEI
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UNCLAS AIT TAIPEI 003595

SIPDIS

INFO USDOC WASHDC
AMEMBASSY BANGKOK
AMEMBASSY BEIJING
AMEMBASSY SEOUL
AMEMBASSY SINGAPORE
AMEMBASSY TOKYO
AMEMBASSY MANILA
AMEMBASSY JAKARTA
AMEMBASSY KUALA LUMPUR
AMEMBASSY HANOI
AMEMBASSY CANBERRA
AMEMBASSY WELLINGTON
AMCONSUL HONG KONG
AMCONSUL SHANGHAI
AMCONSUL GUANGZHOU
DEPT OF TREASURY WASHDC

SIPDIS, SENSITIVE BUT UNCLASSIFIED

STATE PLEASE PASS AIT/W AND USTR

STATE FOR EAP/TC, EAP/EP

USTR FOR ALTBACH

USDOC FOR 4420/USFCS/OCEA/EAP/LDROKER
USDOC FOR 3132/USFCS/OIO/EAP/ADAVENPORT
TREASURY FOR OASIA/LMOGHTADER
TREASURY PLEASE PASS TO OCC/AMCMAHON
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

E.O. 12958: N/A

TAGS: [EINV](#) [EFIN](#) [ECON](#) [PINR](#) [TW](#)

SUBJECT: M&A by Foreign Financial Institutions

SUMMARY

11. London-based Standard Chartered Bank (SCB) recently announced it will totally acquire Taiwan's Hsinchu International Bank (HIB) in October 2006 by purchasing equity shares in Taiwan's stock market. A dozen foreign investors have acquired significant equity in six Taiwan banking institutions through private placement so far this year, and several other merger and acquisition (M&A) deals for Taiwan banks involving foreign investors are under negotiation. Taiwan officials claim that it's the low prices and good quality of local banks that attract foreign investors, but the links to China-based Taiwan-invested companies certainly adds to the appeal. End summary.

First Acquisition through Stock Market Trading

12. In late September 2006, SCB obtained permission from Taiwan's Financial Supervisory Commission (FSC) to acquire HIB through open trading at a price of NT\$24.5 (74 US cents) per share in Taiwan's stock market in October. SCB hopes to obtain 100% ownership in HIB and subsequently de-list HIB from Taiwan's stock market. However, SCB will give up the acquisition plan if it fails to obtain over 51% of HIB ownership prior to October 31. HIB ranks 27th among Taiwan banks in terms of net worth and has 82 local branches.

Significant Foreign Interest in Taiwan Banks

¶3. In 2006 prior to SCB's acquisition announcement, 12 major foreign investors have acquired significant equity in six Taiwan banking institutions through private placement, according to the Banking Bureau. In January 2006, GE Consumer Finance (U.S.) acquired 24.9% ownership in Cosmos Bank and has since participated in operation of the bank and its 62 branches.

¶4. In March, New Bridge (U.S.) and Nomura Securities (Japan) obtained a total of 23% ownership in Taishin Financial Holdings (TFH). The major local shareholder (Thomas Wu) continues to control and operate TFH. Taishin International Bank, a TFH subsidiary, operates 100 local branches and three overseas offices.

¶5. In March, Tamasek Holdings (Singapore) purchased 15% equity in E. Sun Financial Holdings (ESFH). Major local shareholders continue to operate ESHF whose subsidiary E. Sun Bank has 98 local branches and two overseas offices.

¶6. In May, Shinsei Bank (Japan) obtained 42% ownership in Jih Sun Financial Holdings (JSFH) and since then has installed its own line managers in JSFH subsidiary Jih Sun International Bank, which has 35 local branches.

¶7. In June, Dai Ichi Mutual Life (Japan) obtained 6.5% ownership in Shin Kong Financial Holdings (SKFH). Dai Ichi has provided SKFH with sophisticated technologies under a strategic alliance arrangement. SKFH subsidiary Shin Kong Commercial Bank has 107 local branches.

¶8. In September, eight foreign companies (including Singapore's CAM Financial Holdings) committed to supply Huanan Business Bank (HBB, which has negative net worth) with NT\$5.3 billion (US\$163 million) of capital. The additional funding allowed HBB to avoid Central Deposit Insurance Corporation takeover.

Cases under Negotiation

¶9. Four bank M&As involving foreign investors are under negotiation. In September, Citicorp revealed its intention to acquire equity in the Bank of Overseas Chinese (BOC) which ranks 33rd among Taiwan banks in net worth and has 54 local branches. Deutsche Bank reportedly also intends to acquire equity in BOC. HSBC has reportedly entered into negotiation for acquisition of equity in Far Eastern Financial Holdings (FEFH) whose subsidiary Far Eastern International Bank has 35 local branches and one overseas office. Three U.S. banks have reportedly started negotiations on acquisition of Taiwan's Chinese Bank which has a relatively poor NPL ratio of about ten percent. Two U.S. banks have entered into negotiations on acquisition of Taitung Business Bank whose net worth is almost zero and which has an NPL ratio of 23% (one of the poorest ratios among Taiwan banks).

Large Foreign Presence in Taiwan Banks

¶10. The average foreign ownership of banking institutions listed on the Taiwan Stock Exchange has reached 22%. According to Banking Bureau officials, foreign portfolio investors (mainly large mutual funds) are attracted by the good quality of Taiwan banking institutions. Taiwan bank's average NPL ratio remains below 2.5% and their average capital adequacy ratio remains above 10%, higher than the minimum 8% required by BASEL II. Another factor identified by AIT contacts is that Taiwan bank share prices are one-third less than their counterparts in Hong Kong. Another point of interest for foreign banks is Taiwan's high level of wealth accumulation, which offers a substantial market for asset management services. For Taiwan's largest financial holdings, the percentage of foreign ownership has reached 53.6% for ChinaTrust, 42% for both for E. Sun and Jih Sun, 41.2% for Fubon, 38% for SinoPac, 35.7% for Cathay, 33% for Taishin, 30.5% for Shin Kong, and 25% for Mega.

Comment

¶11. In spite of delinquent credit/cash card debt problems that

eroded the profitability of banking institutions in Taiwan earlier this year, Taiwan banks remain attractive to foreign investors. By acquiring a Taiwan bank, foreign investors gain a built-in clientele among the tens of thousands of Taiwan companies located in China.

Young